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C O N F I D E N T I A L MANILA 000690

E.O. 12958: DECL: 03/31/2028
ECON, EFIN, PREL, RP, WTO
SUBJECT: PHILIPPINE FINANCE SECRETARY ON GLOBAL AND LOCAL
ECONOMICS

REF: MANILA

Classified By: Ambassador Kristie A. Kenney reasons 1.4 (b)

1. (C) Summary: The Ambassador discussed the global and Philippine economic situation, the Millennium Challenge Compact, and U.S. commercial interests with the Philippine Finance Secretary Gary Teves on March 30. The Secretary expressed support for the U.S. approach to the upcoming Group of 20 (G-20) Summit and guarded optimism for global economic recovery to begin later this year. He noted that the Philippine stimulus plan is modest (reftel) due to fiscal concerns, but did not foresee any local crisis with unemployment or remittances. The Secretary had a realistic view of the Millennium Challenge Compact, and suggested that exchanges be kept to a low, technical level to avoid raising false hopes. He expressed appreciation for the contributions of U.S. businesses in the Philippines and willingness to help resolve commercial issues. End summary.

Finance Secretary Supports U.S. Approach

2. (C) In advance of the G-20 Summit, Ambassador met with Philippine Department of Finance Secretary Margarito & Gary8 Teves over a one-on-one breakfast on March 30 for over two hours to discuss economic issues. Secretary Teves noted the widespread interest and anticipation of the G-20 Summit starting later this week, and his continued close contact with fellow ASEAN finance ministers on dealing with the global financial crisis. He suggested that in order to restore confidence in the global financial system, it was critical that the G-20 meeting achieve a unified, concrete approach towards the issues. He stressed without reservation that the U.S. had adopted the right approach to the crisis with its economic stimulus programs and he expressed guarded optimism that public confidence is now returning and that global economic recovery might begin as early as the fourth quarter of this year.

Crisis Unlikely in Philippines

3. (C) Secretary Teves noted that the Philippines government was able to provide only modest economic stimulus due to concerns about its debt to GDP ratio (see reftel detailed report on fiscal situation). He echoed the view that the Philippines is somewhat insulated from the global crisis because remittances from overseas Filipino workers would still increase slightly this year and some sectors of the economy would gain jobs to balance those lost in other sectors. He noted that the Philippine elections scheduled for May 2010 would put additional money into the economy and act as an additional stimulus, that rice stocks should be adequate to avoid price spikes this year, and that GDP growth could still reach three percent for 2009.

Millennium Challenge Compact

¶4. (C) Secretary Teves indicated that he understood the difficulty the Philippines faced in passing the corruption indicator and that a compact was not likely to be completed during President Arroyo,s term in office, ending in 2010. He suggested to avoid raising public expectations for a compact by keeping delegation exchanges to a low, technical level. However, he indicated that he still wants to complete preparations for an eventual compact and is looking forward to traveling along with Budget Secretary Andaya and Ombudsman Gutierrez to Washington in April to meet relevant U.S. MCC officials.

¶5. (C) Secretary Teves expressed appreciation for the economic and other contributions of U.S. companies invested in the Philippines. He said he is following the Quedancor/GE Moneybank issue and is working with legal advisors on a solution. Ambassador took the opportunity to urge that U.S. bidders on automated voting machinery be given full consideration.

¶6. (C) Secretary Teves noted that President Arroyo has significantly improved economic coordination among Philippine government agencies through regular formal and informal meetings. He also noted that serious economic problems remain due to the inefficient tax collections and poorly functioning judicial system. He was non-committal about his own plans after government.

Comment

¶7. (C) Secretary Teves is highly regarded by the business and banking sector and by Philippine Department of Finance officials as a pro-reform technocrat with great ability and integrity. Earlier this year, the Financial Times Group designated him as Asia,s Finance Minister of the Year for ¶2009.

KENNEY